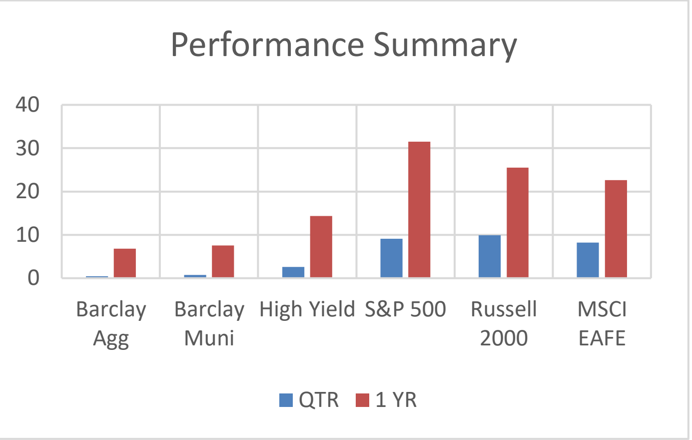

2019 was a year that economic activity and market performance moved in opposite directions. While the economy slowed and earnings were basically flat, the broad financial markets experienced one of their best years on record. **Three themes dominated the past year: a global manufacturing slump; increased geopolitical concerns about trade; and easy monetary policy around the world.** Easy global central bank policy overshadowed the other two themes and significantly boosted the valuation of stocks and bonds around the world. The major indices were up as follows for the year: S&P 500 up 31.5%; Russell 2000 up 25.5%, MSCI EAFE up 22.7%; and the Barclays Aggregate Bond Index up 8.7%. **With almost all asset classes positive in 2019, a simple balanced portfolio (60% stocks and 40% bonds) had one of its best years in decades**. Below are a couple of topics that are likely to influence our investment thinking in the year(s) ahead.

Not a Normal Economic Cycle:

The US economy has experienced its longest and slowest recovery from a recession since the 1950's. **The normal cyclical patterns of past economic cycles have changed or are missing.** Normally, low interest rates would lead to a build-up of consumer debt and a reduction of savings that would cause spending to grow faster than income. That hasn't happened. Usually when the unemployment rate had a drop similar to the current one from 10% to 3.5%, wages and inflation would increase rapidly. That hasn't happened. Historically, long economic expansions led the Fed to raise interest rates to a level that would contract the economy. That hasn't happened. This cycle the Fed kept interest rates at zero 78 months into the recovery. Then the Fed raised rates with nine quarter-percentage increases, before it reversed course in 2019 with three rate cuts. After more than 10 years of economic growth the real level of Fed's policy rate remains near zero, that's unusual. **The cyclical patterns of this economic recovery are different and make it near impossible to predict when the recovery will end. It doesn't seem likely that the Fed will overtighten policy any time soon, rather the most likely culprit for the next recession will be some type of financial imbalance or unexpected geo-political event.**

The Folly of Forecasts:

It's the time of year when Wall Street strategists roll out their annual forecasts for where the market will be in 12 months. These forecasts tend to be very detailed and precise in their predictions, our advice is to ignore them. **No one can reliably predict where the market will be in a 12 month period, and anyone that attempts to do so is either going to be wrong or lucky… no matter how official their predictions look!** To avoid the temptation of looking at short-term forecasts we often remind ourselves of the wisdom in Ben Graham's description of the stock market, "in the short run, the market is like a voting machine… but in the long run, the market is like a weighing machine." This quote simply means, **in the short run the market is driven by investor emotions, which can't be reliably predicted. However in the long-run markets are driven by their fundamentals and valuation. Which are more easily measured than emotions, but only have predictive value in the long-term!**

On the next page we provide our outlook for the major asset classes, but remind our readers these are not short-term predictions. Rather our outlook takes a long-term view (usually five years) and is based on the fundamentals and valuation (emphasis on valuation) for each of the markets. Like everybody else, we have no particular ability to forecast markets in the short-term, however history and our experience has taught us that over the long-term we can improve results by "weighing the value" of asset classes and investments. Given the exceptional investment returns of the past year, this is a great time to re-evaluate your portfolio to make sure your mix of assets are still in-line with your objectives and risk tolerance. **Updating your financial plan in 2020 is be the best way to make sure your investments are still on track to meet your goals.**

Asset Class		* ↔ Neutral weight ↓ Underweight ↑ Overweight
Equities	***View****	***Comments***
U.S. Large Cap	↓	In global portfolios we are underweight US stocks in favor of other asset classes, primarily due to valuation. Within the category we continue to slightly overweight: value, Quality-at a-Reasonable-Price (QARP) and dividend paying stocks.
U.S. Small/Mid Cap	↓	We remain underweight small/mid-cap stocks due to relatively high valuations and concerns about high debt levels. Small/Mid-caps tend to perform best early to mid in the business cycle, and we view the current cycle as being in the later stages.
International Developed	↑	We are 'relatively' optimistic on foreign developed stocks and believe the best opportunities are in growing dividend stocks. Investors with a longer time horizon should be overweight, on a five year time horizon we expect foreign developed markets to outperform US markets.
Emerging Markets	↑	For long-term global portfolios we would be overweight emerging markets, with an emphasis on value. We believe the US $ may peak in the next couple of years, fundamentals and valuations are reasonable, and expect EM to outperform both US and foreign developed markets long-term. Near-term, EM may be vulnerable if there is a global recession or the $ strengthens.

Fixed Income		
Investment Grade	↓	With the 10- year treasury yield near 1.9% we are maintaining our under-weight rating, and would move some bond exposure to the alternative asset category. Which we expect to outperform over a full market cycle. We recommend keeping some exposure for disciplined risk management, diversification purposes and to hedge reinvestment risk.
High-Yield Bonds	↓	We are underweight high-yield and believe valuations are too high given the current late stage of the business cycle. We like to own high-yield early in the business cycle when spreads are wide and valuations are cheap, today spreads are tight and valuations rich.
Municipal Bonds	↔	We are neutral on municipal bonds, however they remain attractive for high tax-bracket investors and we would overweight them in taxable portfolios. The supply/demand outlook for municipal bonds is favorable and should benefit holders going forward.
TIPS	↑	Given the low level of unemployment and interest rates available on core bonds we are favorable on TIPs as a hedge against higher inflation. We don't think inflation is poised to rapidly accelerate, but like holding a position in tax-deferred accounts.
Floating-Rate Loans	↓	We are underweight and remain concerned about the amount and quality of loans being issued, and don't believe they warrant the additional risk. Investors in this asset class should stick with investment grade and be wary of liquidity issues.
Emerging Markets	↔	This asset class can experience big performance swings and direct exposure may only be appropriate for higher risk tolerant investors. We get some exposure thru our core bond managers and don't anticipate buying any direct positions.

Alternatives		
Absolute-Return/Alternatives	↑	We like this asset class and believe it can improve the risk/reward profile of portfolios that hold traditional asset classes. Our expectation is this asset class will perform in-between bonds and stocks over a full market cycle.
REITs	↓	The decline in interest rates in 2019 led to a strong rally in REITs, leaving the asset class overvalued. With interest rates likely to rise in the next few years and valuations currently high we would be underweight REITs.
Commodities/Gold	↔	We view commodities as an effective way for long-term investors to diversify their portfolios and hedge against higher inflation. We expect the performance of commodities to improve and believe small positions as a hedge against geopolitical and monetary policy risk makes sense. Gold has performed well this year and may be overbought, however a small position still seems like a reasonable hedge in portfolios. With the $ peaking we think commodities may be a surprise upside performer.

U.S. Stocks
Market Performance, Fourth Quarter 2019

Index	Q4 2019	1 YR
S&P 500	9.07%	31.49%
Russell 1000	9.04%	31.43%
Russell 1000 Value	7.41%	26.54%
Russell 1000 Growth	10.62%	36.39%
Russell Midcap	7.06%	30.54%
Russell 2000	9.94%	25.52%

Source: Morningstar

- Stocks were in a "risk-on" mode in the fourth quarter as investors became convinced the economy was turning up while global central banks continued flooded the system with liquidity. Tech stocks were the top performers, followed closely by growth and financials.
- Growth stocks outperformed, propelled by strong performance in the tech sector. Long-term we expect the performance of value stocks to revert back to the mean and outperform growth over the next 3 to 5 years.
- We still like quality-at a-reasonable-price (QARP) and dividend paying investment strategies as a long-term strategy in the US and foreign markets.

International Stocks
Market Performance, Fourth Quarter 2019

Index	Q4 2019	1 YR
MSCI EAFE	8.21%	22.66%
MCSI EME	11.93%	18.90%
MSCI BRIC	13.18%	23.11%

Source: Morningstar

- Foreign developed markets had a strong quarter as trade deals got resolved and uncertainty about Brexit was reduced. Longer-term we expect foreign stocks to outperform their US counterparts, although capitalizing on this trend will require patience.
- We continue to see signs the US $ may be peaking. If the Dollar does sell-off we think it will be a catalyst for better foreign stock performance. Emerging markets, particularly value stocks, may offer the best absolute return potential over the next 5 years. Long-term investors with a growth appetite should be overweight.

Source: Morningstar

Fixed Income

Market Performance, Fourth Quarter 2019

Index	Q4 2019	1 YR
Vanguard Total Bond Index	0.00%	8.61%
Barclays Muni Bond	0.74%	7.54%
Barclays US Corp High-Yield	2.61%	14.32%
JPM GBI- EM Global Diversified	5.20%	13.47%
iShares TIPS Bond	0.73%	8.28%
BofA Merrill Lynch 3 month Treasury Note	0.47%	2.30%

Source: Morningstar

- Core bonds were flat for the quarter, but overall had a very strong 2019, up 8.6%. With interest rates at current levels we would be underweight core bonds, keep durations relatively short and overweight cash. The technical outlook for municipals continues to be favorable.

- High-yield bonds have performed well this year, but we remind investors that high-yield tends to behave more like stocks in up and down markets. Given low yields and relatively tight spreads over high quality bonds we recommend an underweight position.

Alternative Assets

Market Performance, Fourth Quarter 2019

Strategies	Q4 2019	1 YR
PIMCO All Asset All Authority	3.6%	7.6%
AQR Diversified Arbitrage	2.2%	8.5%
JPMorgan Hedged Equity	4.3%	13.3
Vanguard REIT	0.6%	28.9%
BNY Mellon Global Real Return	2.1%	11.7%

- Most alternative assets we track have added value relative to bonds for the quarter and year. REITs were relatively flat for the quarter and look a little overvalued. Our preferred gold ETF, iShares Gold Trust, was up 2.5% for the quarter and 18.5% for the year.

- We like alternative assets as a strategic way to reduce risk and increase absolute returns in portfolios. We plan to maintain a position in alternative assets unless we see a significant pullback in traditional assets (stocks and bonds).

Appendix:

Benchmark Definitions

U.S. Equity		Description
S&P 500	Index	The index includes 500 leading US companies and captures approximately 80% coverage of available market capitalization.
Russell 1000	Index	The Russell 1000 Index measures the performance of the large-cap segment of the U.S. equity universe and includes approximately 1000 of the largest securities. The Russell 1000 represents approximately 92% of the U.S. market.
Russell 1000 Value	Index	The Russell 1000 Value Index measures the performance of the large-cap value segment of the U.S. equity universe. It includes those Russell 1000 companies with lower price-to-book ratios and lower expected growth values.
Russell 1000 Growth	Index	The Russell 1000 Growth Index measures the performance of the large-cap growth segment of the U.S. equity universe. It includes those Russell 1000 companies with higher price-to-book ratios and higher forecasted growth values.
Russell Midcap	Index	The Russell Midcap Index measures the performance of the mid-cap segment of the U.S. equity universe. It includes approximately 800 of the smallest securities based on a combination of their market cap and current index membership.
Russell 2000	Index	The Russell 2000 Index measures the performance of the small-cap segment of the U.S. equity universe. It includes approximately 2000 of the smallest securities based on a combination of their market cap and current index membership.
International Equity		**Description**
MSCI EAFE	Index	The EAFE (Europe, Australasia, Far East) index consists of 21 developed market country indexes, excluding the US & Canada. It is a free float-adjusted market capitalization index that is designed to measure the equity market performance of developed markets.
MCSI EME	Index	The index is a free float-adjusted market capitalization index that is designed to measure equity market performance of emerging markets and includes 23 emerging market countries in the index.
MSCI BRIC	Index	The index is a free float-adjusted market capitalization weighted index that is designed to measure the equity market performance of the following four emerging market country indexes: Brazil, Russia, India and China.

Fixed Income		Description
Vanguard Total Bond Index	Index Fund	This index measures a wide spectrum of public, investment-grade, taxable, fixed income securities in the United States—including government, corporate, and international dollar-denominated bonds, as well as mortgage-backed and asset-backed securities, all with maturities of more than 1 year.
Barclays Aggregate Bond	Index	The U.S. Aggregate Index covers the USD-denominated, investment-grade, fixed-rate, taxable bond market of SEC-registered securities. The index includes bonds from the Treasury, Government-Related, Corporate, MBS (agency fixed-rate and hybrid ARM pass-through bonds), ABS, and CMBS sectors.
Barclays Muni Bond	Index	The U.S. Municipal Indices cover the USD-denominated long term tax exempt bond market. The index has four main sectors: state and local general obligation bonds, revenue bonds, insured bonds, and pre-refunded bonds.
Barclays US Corp High-Yield	Index	The index covers the USD-denominated, non-investment grade, fixed-rate, taxable corporate bond market and excludes Emerging Markets debt.
JPM GBI- EM Global Divers	Index	The index tracks returns for actively traded external debt instruments in emerging markets. Included in the index are US-dollar denominated Brady bonds, Eurobonds, and traded loans issued by sovereign entities.
iShares TIPS Bond	ETF	The iShares TIPS Bond ETF seeks to track the investment results of an index composed of inflation-protected U.S. Treasury bonds.
BofA Merrill Lynch 3 month Treasury Note	Index	The 3-month US Treasury Note Index is comprised of a single issue purchased at the beginning of the month and held for a full month. At the end of the month, that issue is sold and rolled into a newly selected issue.
Alternative Assets		**Description**
PIMCO All Asset All Authority	Mutual Fund	The investment seeks maximum real return, consistent with preservation of real capital and prudent investment management. The primary benchmark for the fund is the S&P 500, with a secondary objective of Consumer Price Index +650 basis points.
AQR Diversified Arbitrage	Mutual Fund	The investment seeks long-term absolute (positive) returns. It invests in a diversified portfolio of instruments, including equities, convertible securities, debt securities, loans, warrants, options, other types of derivative instruments.
JPMorgan Hedged Equity	Mutual Fund	The investment seeks to capture the majority of the returns associated with equity market investments, while exposing investors to less risk than other equity investments. The fund invests in a broadly diversified portfolio of common stocks, while also selling index call options and purchasing index put options.

Alternative Assets		Description
Vanguard REIT	ETF	The investment seeks to provide a high level of income and moderate long-term capital appreciation by tracking the performance of a benchmark index that measures the performance of publicly traded equity REITs.
BNY Mellon Global Real Return	Mutual Fund	The fund allocates its investments among global equities, bonds and cash, and, generally to a lesser extent, other asset classes, including real estate, commodities, currencies and alternative or non-traditional asset classes and strategies, primarily those accessed through derivative instruments.